


26 February 1973

MEMORANDUM FOR: Deputy Director for Intelligence

SUBJECT : Foreign Economic Policy

The attached gives my thoughts on U.S. foreign economic policymaking. Top direction has properly been centered in the White House, but the process of formulating and implementing policy is still a mess. To improve the situation I believe the CIEP Staff should be upgraded so that it can become an economic counterpart of the NSC Staff, and that a separate assessment, based on research contributions, should be prepared for all important policy studies. I also believe that CIA's large role in economic policy support should be more formally recognized.


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Attachment:
as stated

How to Organize the Foreign Economic Policy Process

1. The naming of Secretary Shultz to head the newly formed Council for Economic Policy (CEP) caps a three-year White House drive toward reestablishing leadership and a degree of order in US foreign economic policymaking. But although White House control has been achieved at the top level, the process of formulating and implementing foreign economic policy continues to be chaotic. This memorandum discusses how this process could be improved.

The Present Situation

2. Until the late 1960's US foreign economic policy was run mainly by the State Department as a subordinate element of general US foreign policy. Such an approach was feasible so long as the US was the dominant power and, could largely ignore its international trade and payments, thanks to the widespread need for dollars. The passing of the Cold War and of US dominance, and the reduced acceptability of the US dollar as our balance-of-payments deteriorated, made it necessary to give a high priority to the economic aspects of foreign policy and made it impossible for the US to insulate domestic from foreign economic questions. After much foot dragging the State

major role except on critical issues. The NSC Staff, with only one economist, can do little more than monitor the issues. CIEP, since its creation in January 19, 1971, has been helpful -- by commissioning policy

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studies, obtaining independent views, and at times clarifying interagency differences. But its staff has not had the stature to provide strong leadership. Thus, while the U.S. government has vast resources to draw upon, these have not been effectively brought to bear on foreign economic policy questions.

A Reform Proposal

4. The working out of foreign economic policy and its implementation should be controlled by the White House, not by a single department. I believe the key responsibility should go to the CIEP. This would mean: (1) clearly designating the Executive Secretary of CIEP as Mr. Shultz's Deputy for foreign economic policy; and (2) upgrading the CIEP Staff so that it can play the same kind of role the NSC Staff now plays in national security questions.

5. The CIEP Staff should be somewhat expanded and considerably strengthened so that it can monitor developments in each major area of foreign economic policy, draft policy papers, probe into foreign economic problems, and generally mobilize the US foreign economic bureaucracy. The CIEP Staff members should have reasonably fixed responsibilities (for example, agricultural policy, tariff policy, foreign aid) and reasonable continuity.

6. A stronger CIEP Staff is needed to improve the quality of economic policy studies, such as CIEPSM's, which, in the absence of adequate controls, now range from excellent to atrocious. This is also true of NSSM's, but with the important difference that the most important papers are usually well done because the NSC Staff does its own drafting or takes an active part in their preparation. The CIEP Staff too should be able to draft important papers or redraft those prepared by other departments. Lower priority papers, of course, would have to be drafted mainly by the State Department or other Departments, with contributions.

7. Policy papers would also benefit from a more substantial and systematic research input. The same person who prepares policy options usually states the problem and evaluates its dimensions. This often has

negative effects: the problem may be sloppily stated, and the author's preferred policy solution may bias his analysis. Unnecessary and misplaced disagreement between the agencies is often the result. To minimize these problems the responsible CIEP Staff man should:

- (1) circulate to all departments and agencies with a research capability, a carefully thought out preliminary statement of the questions that need to be answered to make national policy decisions.
- (2) solicit from these recipients research evaluations on any of these questions.
- (3) Prepare, or ask one of the Departments to prepare, upon receipt of the research contributions, an assessment which would clarify the issues, identify the areas of agreement and disagreement, and the reasons for these.
- (4) Coordinate the assessment with the contributing departments and draft the policy options. The entire paper would then proceed through the coordination process as NSSM's and CIEPSM's do now.

8. For especially complex problems on which substantial disagreement exists, an additional step might be useful. Once the research contributions are in a Review Board, with representatives from the appropriate foreign economic research offices (in CIA, State, Treasury, Commerce, Agriculture, the Federal Reserve Board and the Tariff Commission) could be assembled to produce the assessment portion of the policy study. Each member would be invited to comment on all the other members' contributions and the one making the principal contribution would draft the joint paper, coordinate it and submit it to the CIEP.

9. Once a policy has been decided more systematic work needs to be done to evaluate its effectiveness. This means that the research units which follow foreign economic developments need more specific guidelines spelling out our policy objectives and their expected

effects. We also need to know more concretely how policies are being implemented so we can compare implementation with results.

The Role of CIA

10. CIA, which accounts for the bulk of economic intelligence production, has a key role to play in economic policy support. No one else in Washington has worldwide coverage of foreign economies, independence from policy, and the capability of responding promptly and flexibly to outside requests. Moreover, while one of CIA's main functions is to assess the implications of research findings for questions of importance to policymakers, the economic research units of most other departments -- notably Treasury and Commerce -- leave most of the assessing to the units responsible for policy.

11. There are many foreign economic questions, however, on which CIA is not very knowledgeable. For example, USDA knows a great deal more about agriculture, except in communist countries; Commerce has far more resources on foreign trade statistics and regulations; the Tariff Commission has done more intensive research on multinational corporations. Moreover, CIA cannot tackle such basic policy-related questions as the prospects for US foreign trade and payments head on -- because of our charter and the sensitivities of other departments. We contribute extensively to policy support on such questions, but mainly through studies of the economies, trade and payments of foreign countries.

12. CIA's role in the proposed foreign economic policy process needs to be formalized. CIA is not now a member of the CIEP and does not automatically receive policy papers that go through the CIEP mechanism unless these are part of or prepared in conjunction with a joint NSC/CIEP study. In practice we have been involved in a number of CIEPSM's, but only because of informal, personal connections.

13. I do not believe CIA should be a member of CIEP but some sort of high level agreement giving us observer status would be very useful. We would then get all CIEP drafts and studies by right; we would be in a position to make a better research input; and we would have better opportunities for commenting on CIEPSM drafts. We should play an active role commenting on other agencies' contributions and participating on a Review Board should one be formed. CIA should also have the opportunity of commenting on the policy studies themselves, through their various drafts, with regard to factual and estimative content.